

POLICY SYNTHESIS

FOOD SECURITY RESEARCH PROJECT-ZAMBIA

Ministry of Agriculture & Cooperatives, Agricultural Consultative Forum, Cotton Association of Zambia, Zambia Cotton Ginner's Association, Michigan State University and MATEP– Lusaka Zambia

Number 21

(Downloadable at <http://www.aec.msu.edu/agecon/fs2/zambia/index.htm>)

April 2007

URGENT NEED FOR EFFECTIVE PUBLIC-PRIVATE COORDINATION IN ZAMBIA'S COTTON SECTOR: DELIBERATIONS ON THE COTTON ACT

By

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Key Messages:

- Cotton is an unquestioned success of Zambia's turn towards a market economy. Yet the entry over the past two years of new players has put the sector under great stress and may have pushed it to a turning point.
- Now more than ever, effective "rules of the game" are urgently needed to protect Zambia's remarkable cotton success story. Other countries in southern and eastern Africa have seen dramatic declines in input credit and extension to farmers, and in cotton quality, when competition among ginning firms intensified in the absence of suitable rules of the game.
- The focus in Zambia must be on establishing broadly accepted rules of the game that ensure honest competition that does not undermine input credit, extension, and cotton quality.

Zambia's Cotton Success Story: Cotton is an unquestioned success of Zambia's turn towards a market economy. After reform in late 1994, production rose from 32,000 mt to some 90,000 mt (3 year averages centered on 1995 and 1998). After collapsing to less than 50,000 mt in 2000, it rose steadily, approaching 200,000 mt in 2006. Over 2002-2005, exports of cotton lint were first among all agricultural exports in value, 30% higher than raw cane sugar, its closest competitor. And while sugar is primarily produced on large operations, cotton is almost entirely a smallholder crop. Its potential for reducing poverty and improving food security is thus very large.

Pillars of Success: This remarkable success has been built on two pillars. First, the two private companies that purchased Lintco ginning operations in 1994 showed a strong and effective commitment to providing large numbers of farmers with a reliable input package, effective basic extension messages, attractive prices during most years, and a guaranteed market for their product. Because input supply and output marketing are perpetual problems for smallholder farmers in Zambia (and throughout sub-Saharan Africa), farmers rushed to adopt the crop. Rapid increases in the numbers of farmers and slow

but steady increases in yield amongst experienced smallholders led to the production boom that everyone has seen.

The second pillar of Zambia's cotton success story is that government avoided major mistakes in the sector for nearly a decade after liberalization; the economic environment was relatively stable and Lonrho (now Dunavant) and Clark (now Cargill) were allowed to carry out their business activities with little interference. As a result, each company was able to put their extensive knowledge of cotton and their financial strength to work in creating effective systems to support smallholder cotton production and marketing.

The Crisis of the Late 1990s, and Recovery:

The cotton sector went through a major crisis in the late 1990s, when new entrants provided very little input credit to farmers but bought large amounts of cotton from farmers who had been financed by Lonrho or Clark; effectively, many of these new companies encouraged farmers to default on their loans. Lonrho suffered major financial losses and left the sector. Yet its successor (Dunavant) and Clark were able to overcome this crisis by strengthening their input credit supply and recovery systems and demonstrating to most

farmers the benefits of remaining loyal to the company. As a result, some of the new competitors left the market, and others were unwilling to take on the risk of input supply and expand their market share. Credit default receded as a problem, and production boomed through the 2006 harvest season.

The Current Situation: Credit default in 2006 returned to levels not seen since the late 1990s, and cotton production in 2007 declined by as much as half. It is widely recognized that this current crisis was driven by the sharp appreciation of the Kwacha, the related controversy over pricing, and the very negative effects on profitability for farmers and ginners. Less appreciated are two other factors which pose serious long-run challenges for the sector. First, the recent rapid appreciation of the Kwacha was simply a more dramatic version of appreciation that had been taking place since mid-2002. In fact, other research shows long-term appreciation of the Kwacha since the late 1980s. This means that export sectors in Zambia have had, for many years, to increase productivity a rapid pace just to remain competitive.

The second factor contributing to the current crisis – and the focus of this brief – is the substantial change in the structure of the sector over the past two years. During this time, some small companies already in the sector expanded their operations; for example, Continental Ginneries has now opened a second gin in Sinda, Eastern Province. Additionally, significant new players have entered the cotton market during this time: Great Lakes Cotton Company (GLCC) (a regional affiliate of Plexus, a multi-national cotton trading company) has established a ginnery at Sinazongwe in Southern. Alliance Cotton in Central Province, Chipata Cotton Company (CCC) and Birchard Cotton Ltd in Eastern province, and at least one or two others. Further expansion by these and other new companies is underway: CCC is currently installing a second gin in Petauke, the recent visit of the President of China is reported to have generated agreements to build 3-5 new gins in Eastern Province, and GLCC is consolidating and growing its operations.

What to Do Next? Competition can be good for farmers, resulting in more choice and better prices. But the *sustainable* expansion of cotton

production in Zambia depends on the reliable provision of inputs on credit, and good extension advice, to hundreds of thousands of smallholder farmers. Ten years of experience in Uganda, Tanzania and, most recently, Zimbabwe, has shown that unbridled competition among companies can lead to widespread credit default, which undermines input credit provision, extension, and cotton quality. In other words, competition without rules can undermine the key pillars of Zambia's remarkable cotton success story.

A broad range of cotton stakeholders – Zambia Cotton Ginners Association (ZACOGA), Cotton Association of Zambia (CAZ), and MACO – have already collaborated closely to propose extensive revisions to the Cotton Act. ZACOPA and CAZ continue collaborating to reduce side selling during 2007. A central provision of the Act is the creation of a Cotton Board made up of a balanced mix of private and public stakeholders and with the mandate to regulate the production and, especially, the selling and buying of seed cotton in the country. It is our perception that ginners and farmers remain strongly committed to passage of this revised Act. If this is the case, then submission by MACO of the revised Act to Parliament at the earliest possible date would show stakeholders that their good faith efforts have been rewarded, would create the possibility that some elements of the Cotton Board's mandate could begin to be implemented prior to the 2007/08 cropping season, and would provide a greater sense of clarity regarding rules of the game for all stakeholders. Over the longer term, government has an opportunity to contribute significantly to development of the cotton sector by engaging with stakeholders without dominating the process, thus ensuring a stable policy environment and facilitating active collaboration among the key players, being farmers and ginners.

The Food Security Research Project is collaboration between the Agricultural Consultative Forum, the Ministry of Agriculture and Cooperatives, other Zambian stakeholders and Michigan State University, and is funded by USAID and SIDA (Sweden) in Lusaka. <http://www.aec.msu.edu/fs2/zambia/index.htm> Please direct all inquiries to the In-Country Coordinator, Food Security Research Project, 86 Provident Street, Fairview, Lusaka; tel: 260 1 234539; fax: 260 1 234559; e-mail: govrehj@msu.edu